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September 20, 2005

AGENDA ITEM 7

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Proposed Extension of Self-Funded Health Plans Medical Administrator Contract
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Staff recommends that the Board extend the current Blue Cross contract for one additional year (through 2007) and issue a Request for Proposal in 2006.
- IV. ANALYSIS:**

Blue Cross of California has been the third party administrator for medical services for the Self-Funded Health Plans since January 1, 1999. The contract was awarded for three years based on a competitive Request for Proposal (RFP) effective January 1, 1999. This contract was extended for one year through December 31, 2002. Blue Cross was again awarded the contract for three years beginning January 1, 2003, and ending December 31, 2005, based on a competitive RFP. The contract can be renewed for one or more additional twelve month period, as agreed between Blue Cross and CalPERS, up to a maximum of two twelve-month extensions.

On November 16, 2004, the Board agreed to extend the contract with Blue Cross of California through December 31, 2006, and then re-evaluate whether to issue an RFP for a new third party administrator for medical services for the Self-Funded Health Plans (Medical Administrator RFP).

Staff recommends an additional one-year extension from January 1, 2007, through December 31, 2007, for the following reasons:

- CalPERS has been satisfied with Blue Cross' performance and has received competitive financial terms for extension of the contract.
- Blue Cross is competitive and aggressive in the industry, particularly in the area of provider contacting.

- Blue Cross continues to implement innovative programs for CalPERS, for example, Centers of Expertise for Bariatric Bypass Surgery and a CalPERS Telemedicine Pilot Program for members in designated rural areas that will become effective January 1, 2006. Extending the contract one additional year will allow PERS Choice and PERSCare members to take advantage of these programs.
- The market for medical services third party administrators continues to undergo transformation and is a work-in-progress. Issuance of an RFP in 2006 will likely reap the benefits of these market changes; whereas issuance of an RFP in 2005 would be premature.
- Issuing the Medical Administrator RFP one year later than the Pharmacy Administrator RFP would stagger the contract renewals for the third party medical administrator and the pharmacy benefit manager. It would also avoid a conflict with the Medical Administrator RFP process occurring at the same time as the implementation period for the pharmacy benefits manager, should a new one be selected.

Additional analysis is described in Attachment 1.

V. STRATEGIC PLAN:

This item supports the CalPERS Strategic Plan, Goal III: Design, develop and administer benefit programs and business processes that are innovative, effective, efficient, and valued by our members, employers, and stakeholders.

VI. RESULTS/COSTS:

Issuance of an RFP results in Self-Funded Program consultant and staff resource costs. Given the current marketplace, it is not anticipated that the costs associated with an RFP will provide value to CalPERS at this time. Blue Cross is proposing competitive terms for an additional one-year extension of the contract.

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